

Message Text

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FM AMEMBASSY BONN

TO SECSTATE WASHDC 2351

INFO AMEMBASSY LUSAKA

AMEMBASSY BELGRADE

AMCONSUL DUSSELDORF

C O N F I D E N T I A L BONN 07370

E.O. 11652: GDS

TAGS: EFIN, EIND, ZA, US

SUBJECT: IRON AND STEEL MILL FOR ZAMBIA

REF: LUSAKA 759

1. A WORKING LEVEL OFFICIAL IN THE FRG ECONOMICS MINISTRY CONFIRMED THE FRG DECISION TO PROVIDE DEMAG WITH A HERMES CREDIT GUARANTEE TO COVER CONSTRUCTION OF THE IRON AND STEEL MILL. THE GUARANTEE COVERS EXPORT PAYMENT RISKS AS WELL AS PRODUCTION RISKS. FRG GEOLOGISTS ARE NOT PARTICULARLY ENTHUSIASTIC ABOUT THE PROJECT GIVEN THE SUPPLY UNCERTAINTIES ENUMERATED IN PARA 2 OF REFTEL, BUT THE FRG GRANTED THE GUARANTEE ANY WAY. OUR SOURCE SAID THE FRG HAD RECEIVED ASSURANCES FROM THE ZAMBIANS ON THESE SUPPLY QUESTIONS.

2. AS TO WHY THE FRG DECIDED TO BECOME FINANCIALLY INVOLVED WITH A PROJECT THAT APPEARS TO HAVE CERTAIN ECONOMIC UNCERTAINTIES, OUR SOURCE SAID THERE WERE A NUMBER OF COUNTER ARGUMENTS. ON ECONOMIC GROUNDS HE NOTED THAT HAD THE ZAMBIANS NOT

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GUARANTEED THAT THEY WOULD DEVELOP ADDITIONAL IRON ORE

DEPOSITS TO SUPPLY THE MILL BEYOND THE EXISTING EIGHT YEAR-SUPPLY AND AGREED TO UNDERTAKE CONSTRUCTION OF THE NECESSARY INFRASTRUCTURE, INCLUDING EXTENSION OF A POWER LINE TO THE SITE, THE FRG WOULD NOT HAVE PROVIDED THE GUARANTEE. THE FRG SEES THE PROJECT AS AN IMPORT SUBSTITUTION ONE. NOTING THAT ZAMBIAN STEEL CONSUMPTION IS 150,000 TONS AT PRESENT, HE SAID THE 200,000 TON CAPACITY OF THE NEW PLANT WOULD COVER THAT NEED. THE BALANCE OF PAYMENTS SAVINGS TO ZAMBIA (AT PRESENT HIGH WORLD STEEL PRICES) WILL BE GREATER THAN THE ZAMBIAN REPAYMENTS TO DEMAG FOR THE PLANT. (HE REFUSED TO PROVIDE AN EMBOFF WITH THE TOTAL COST OF THE PLANT SAYING IT WAS A BUSINESS SECRET OF DEMAG.)

3. HE SAID THAT POLITICAL REASONS ALSO SUPPORTED FRG INVOLVEMENT IN THIS PROJECT. HE SAID THE PARTICIPATION OF THE YUGOSLAVIAN FIRM, TECHNICAL AND INDUSTRY KOLEMBELLA ASSOCIATION, IN THE MANAGEMENT OF THE MILL WAS IMPORTANT FOR FRG FOREIGN POLICY REASONS. HE CHARACTERIZED THIS AS A "CONCRETE EXAMPLE OF A JOINT COOPERATION PROJECT BETWEEN THE FRG AND YUGOSLAVIA IN THIRD COUNTRIES", A GOAL OF FRG FOREIGN POLICY. (IN A SIDE COMMENT HE NOTED THAT COSTS TO TRAIN ZAMBIANS TO RUN THE MILL COULD EVENTUALLY BE EXTREMELY HIGH.) AS A SECOND POLITICAL REASON IN SUPPORT, HE VAGUELY ALUDED TO A CERTAIN SYMPATHY IN THE FRG FOR ZAMBIA'S POSITION BETWEEN RHODESIA AND SOUTH AFRICA, AND THE NEED TO ASSIST THE LUSAKA GOVERNMENT.

4. COMMENT. THE DECISION TO PROVIDE AN FRG GUARANTEE FOR THIS PROJECT WAS APPARENTLY SUBJECT TO A GREAT DEAL OF NEGOTIATION WITHIN THE FRG MINISTRIES. FROM WHAT IS KNOWN OF THE ZAMBIAN PROMISES AND FROM OUR TALK WITH THE ECONOMICS MINISTRY OFFICIAL, IT APPEARS LIKELY THAT POLITICAL CONSIDERATIONS CARRIED THE DAY.

HILLENBRAND

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